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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 5532
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3712
RUEHBJ/AMEMBASSY BEIJING 6876
RUEHUL/AMEMBASSY SEOUL 8700
RUEHGP/AMEMBASSY SINGAPORE 6921
RUEHKO/AMEMBASSY TOKYO 8836
RUEHML/AMEMBASSY MANILA 0075
RUEHJA/AMEMBASSY JAKARTA 4085
RUEHKL/AMEMBASSY KUALA LUMPUR 3753
RUEHHI/AMEMBASSY HANOI 3326
RUEHBY/AMEMBASSY CANBERRA 4526
RUEHWL/AMEMBASSY WELLINGTON 1799
RUEHHK/AMCONSUL HONG KONG 8130
RUEHGH/AMCONSUL SHANGHAI 1139
RUEHGZ/AMCONSUL GUANGZHOU 0312

UNCLAS SECTION 01 OF 02 TAIPEI 001270

SIPDIS

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STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH AND STRATFORD
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA
BOLIS

E.O. 12958: N/A
TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)
SUBJECT: Taiwan Auctions Off Insolvent Bank

REF: (A) TAIPEI 0049, (B) TAIPEI 1253

SUMMARY

1. In late May, five months after the bank was placed in receivership due to insolvency, Taiwan auctioned off Enterprise Bank of Hualien (EBH). ChinaTrust Commercial Bank (CCB) won the auction and will have the largest number of branches of any private bank in Taiwan after it takes over EBH in September. Restrictions on new bank branches continue to attract interest in purchasing insolvent banks as a way to acquire additional branches. END SUMMARY.

Auction

2. The bidding for EBH was based on the amount the bidder wanted Taiwan's Central Deposit Insurance Corporation (CDIC) to provide for covering EBH's bad debts. On May 31, CCB's bid of NT\$4.49 billion (US\$136 million) beat four other bids to win the auction for EBH. The four other contenders included ABN AMRO Bank (of the Netherlands), Shanghai Commercial & Savings Bank, Fuhwa Bank, and Waterland Financial Holdings. EBH was the first bank auctioned since CDIC placed three insolvent banks in receivership in January (ref A). CDIC will auction off the other two insolvent banks later this year. ABN AMRO Bank has already announced it will bid in the upcoming auctions as well.

Largest Private Bank

3. On June 5, CCB and the CDIC signed a contract allowing CCB to take over EBH on September 8. The number of CCB's branches will increase from 111 to 142, the most among private banks in Taiwan.

Costs

¶4. CCB must now assume responsibility to cover over NT\$3,608 million (US\$109 million) of EBH debts. CDIC funding of NT\$4.490 billion (US\$136 million) will cover the rest of EBH's total liability gap of NT\$8,098 million (US\$245 million). Overall, CCB will pay about NT\$116 million (US\$3.5 million) for each of EBH's 31 banking offices, less than the NT\$150 million per branch that Union Bank paid in 2004 for insolvent Chong Shing Bank branches and comparable to the NT\$100 million paid in 2004 by E. Sun Commercial Bank for insolvent Kaohsiung Business Bank branches.

¶5. CCB promised to retain at least half of the 540 EBH employees. Departing EBH employees will receive a severance (or retirement) package equivalent to 1.5 month of wages for each year of service. Two-thirds of the compensation package will be paid by CDIC and the remaining one-third by CCB. The CCB portion is estimated at NT\$65 million (US\$2 million).

Justification

¶6. Based on its experience taking over delinquent Fengshan Credit Coop in 2004, CCB estimates that EBH's 31 branches should potentially each bring in average annual earnings of NT\$9,520 million (US\$288 million), about 2.6 times the total cost. CCB plans to move 24 EBH branches away from Hualien to places with more business opportunities, including 16 to Taipei.

Comment

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¶7. The EBH auction results indicate that Taiwan's banks are interested in taking over bad banks in order to expand. Even after lifting its total ban on new bank branches on May 11 (ref B), Taiwan still strictly limits the number of new bank branches.

YOUNG